

WHAT DOES BEING ON THE “WATCH LIST” MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.

Why are funds placed on the watch list?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance**—The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk**—Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio Construction/Style Drift**—Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio, and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations**—There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely.

There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN Current Watch List Summary

The following funds are on the watch list as of 6/30/2010:

Ariel Fund: The fund's performance for 2010 lagged the benchmark but ranked above average in its peer group. The consumer discretionary names were the largest detractor from performance in the first quarter of this year. The fund's performance in the month of May had a negative impact on YTD returns as it ranked in the 89th percentile of its peer group. However the fund's one year returns bolstered by an impressive 2009 return rank in the 1st percentile of the peer group with a return of +52%. The fund's longer-term performance as measured by the five year annualized return, however, has continued to lag its benchmark and its peer group coupled with higher risk as measured by standard deviation and beta. Participants also have access to the Northern Small-Cap Value Fund which invests in a small-cap value equity style. This fund will remain on the watch list due to longer term underperformance.

Janus Adviser International Growth: The fund's performance track record over both recent and longer term periods has been stellar, outperforming its benchmark and peer group across all annualized time periods measured as of May 31, 2010. The fund has ranked in the 2nd percentile of its peer group over the three, five, and ten year annualized periods. The fund's watch status is not based on performance, but rather a result of organizational changes. In July of 2009, the Janus Capital Group Board announced the departure of Chief Executive Officer Gary Black. Mr. Black was credited with bringing about several changes to the firm including a move towards best practices in the investment group. Janus announced a replacement and new Chief Executive Officer, Mr. Richard Weil, earlier this year. Mr. Weil was formerly the Global Head of PIMCO Advisory, a large investment services organization. He began his new role with Janus on February 1, 2010. As this change is still fairly recent, the fund will remain on watch list for the near term. An alternative fund for participants to choose is the Invesco International Growth Fund as it also invests in large-cap international stocks.

Insight



A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

ANNOUNCING INVESTMENT CHANGES TO THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN

In its effort to help you prepare for a more financially secure retirement, the Illinois State Board of Investment ("ISBI") is making changes to its existing 457 investment option lineup.

New investment options available August 3, 2010

Effective **August 3, 2010**, ISBI is adding the following investment options to its Plan lineup:

- Lord Abbett Large Cap Core Strategy Separate Account*
- T. Rowe Price Bond Trust I*
- William Blair International Small Cap Growth Fund, I (WISIX)

For more information on these investments, visit the **myRetirementPlan** Web site at **rps.troweprice.com**. Beginning August 3, 2010, you may view information online, such as performance data and expense ratios, as well as download a fund fact sheet on these investments.

*Reminder about separate accounts and common trusts

Mutual funds, common trusts, and separate accounts are pooled investment vehicles that pursue specific financial goals by investing in various types of securities, including stocks, bonds, and short-term investments.

Common trusts and separate accounts, however, cannot be sold to the general investing public. While there are different types of common trusts and separate accounts, the laws under which they are organized allow only employer-sponsored retirement plans to invest in them. This generally includes 401(k) plans, qualified defined benefit plans, and most governmental and church plans.

Fees for common trusts and separate accounts are generally lower than those charged for mutual funds and can differ between

retirement plans. There are several reasons for the lower fees, including the fact that they are not traded publicly and are only available to qualified retirement plans.

Investments closing as of August 2, 2010

On **August 2, 2010**, ISBI is closing the following two investments:

- Legg Mason Value Trust Fund (LMVFX)
- T. Rowe Price New Income Fund (PRCIX)

Your assets in and future contributions allocated to the closing investments will map according to the chart below. **No action is required on your part.**

Existing assets and future contributions allocated to the...	...will automatically be mapped to and invested in the...
Legg Mason Value Trust Fund (LMVFX)	» Lord Abbett Large Cap Core Strategy Separate Account
T. Rowe Price New Income Fund (PRCIX)	» T. Rowe Price Bond Trust I

If you do not want your future contributions and assets in the closing investments to be mapped to the new investment options, you must change your election for future contributions and/or make an investment exchange to another investment option prior to **Thursday, July 29, 2010, at 4 p.m. eastern time.**

What will happen

To ensure a smooth and accurate transition, it will be necessary to suspend activity in the closing investments for a short period of time.

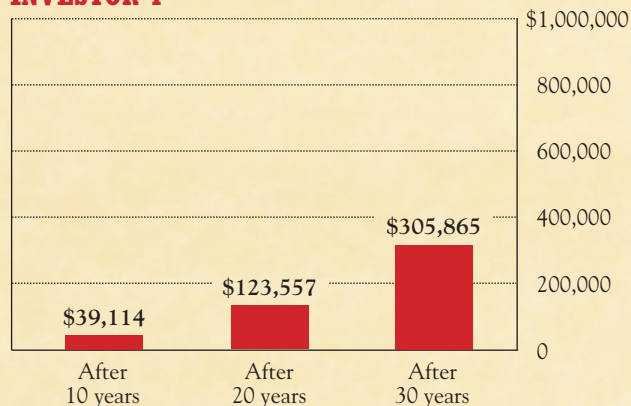
At **4 p.m. eastern time on Thursday, July 29, 2010**, you will no longer be able to direct any new contributions or exchange any existing assets into the closing funds. Unless you make a change to your election for future contributions and/or make an investment exchange to another investment option prior to **Thursday, July 29, 2010, 4 p.m. eastern time**, any portion of your future contributions and any existing balance that you have invested in these funds will automatically transfer to the new investments as shown in the

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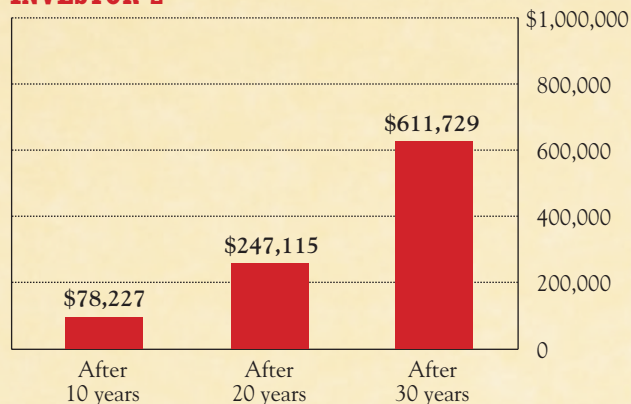
THE BENEFITS OF SAVING MORE

Increasing the percentage of salary you save may have a significant impact on the amount you accumulate for retirement. Consider three investors earning \$50,000 per year and contributing to a workplace retirement plan. The first saves 5%, or \$2,500 per year. The second puts away a total of 10%, or \$5,000. The third finds ways to cut expenses and puts away 15%, or \$7,500 per 7.*

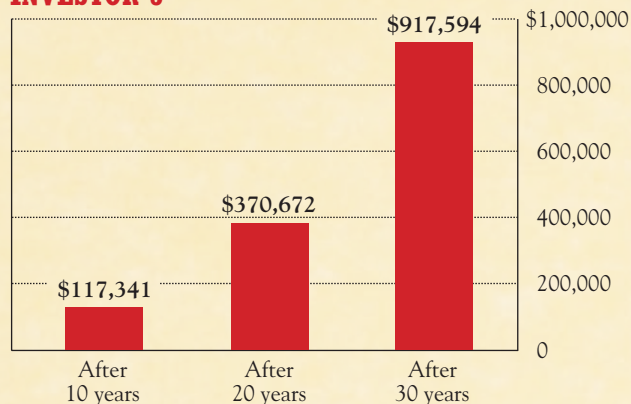
INVESTOR 1



INVESTOR 2



INVESTOR 3



To learn more about investing, log in to rps.troweprice.com.

* Assumes an annual compounded growth rate of 8% and a starting balance of zero.

This example is for illustrative purposes only and not meant to represent the performance of any specific investment.

WHEN TO TAKE SOCIAL SECURITY

Though he's still at the height of his career at age 55, Andrew is already looking ahead to a fulfilling retirement of travel, hobbies, and time with his grandkids. Managing his Social Security benefits can help him realize those goals.

An empty nester, Andrew always assumed he would stop working at age 62, when he'll become eligible to start collecting \$1,480 per month in Social Security payments (an annual benefit of \$17,760). But after calculating his overall expected income, he realized the numbers don't reach the level he'll need to retire with peace of mind. Financial experts suggest that most people will need 75% of their preretirement income to start off, with a cushion of continued growth to absorb the rising cost of goods and services.

Maximizing benefits

To boost his retirement income, Andrew plans to delay taking Social Security benefits for a few years. The Social Security Administration increases the amount you can receive by 7% to 8% for each year you wait, up until age 70. Based on today's numbers, if he holds off until age 70, his benefits will rise to \$2,782 per month, or \$33,384 per year.

Minimizing financial cares

To make sure he has sufficient income after he stops working, Andrew realized he'll also have to postpone his retirement. Those extra years of work after age 62 will enable Andrew to continue contributing to his employer-sponsored savings plan, allowing savings to potentially grow along with expected Social Security benefits. This strategy gives Andrew more confidence and security because he knows he'll be able to enjoy his retirement with fewer concerns about meeting his expenses.

To calculate your expected benefits, use the Social Security Calculator on the [myRetirementPlan](http://myRetirementPlan.com) Web site at rps.troweprice.com. To access the calculator, click Tools, then Calculators & Tools.

To learn more about saving for retirement, visit rps.troweprice.com.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information:

800-442-1300/ 217-782-7006

TDD/TTY: 800-526-0844

Internet: <http://www.state.il.us/cms/employee/defcom>

Recordkeeper

T. Rowe Price Retirement Plan Services, Inc.

Account Value Information and Investment Changes:

888-457-5770 or TDD/TTY: 800-521-0325

Internet Access: 800-541-3022

Internet: <http://rps.troweprice.com>

OVERCOMING YOUR FEAR OF THE MARKET

Some investors are wary of the stock market and keep too much of their portfolio in bonds and money market/stable value investments. This approach can lower your ability to continue growing your savings so you'll have enough for retirement.

Beating the effect of rising costs

When you are investing over the long term, swings in stock prices are less important than how well your investments perform over years and decades. Because prices for goods and services tend to steadily rise over the years (inflation), your investments should grow at a rate that keeps pace with those costs. Think of having \$100 in a bank account, paying 2% interest. After a year, you have \$102. But if inflation was 3%, you'd need \$103 just to buy what \$100 bought a year ago. This effect is even more dramatic when planning for a retirement that could last for decades. For example, a movie ticket costing \$9.75 today will likely be about \$24 in 30 years. (For more examples, use the Inflation Estimator on the **myRetirementPlan** Web site at **rps.troweprice.com**. To access the calculator, click on Tools, then Calculators & Tools.)

Now consider that over the past 50 calendar years, the average annual gain of the S&P 500 stock index was 9.45%, which easily outpaced the 4% inflation rate over that same period. Intermediate bonds, meanwhile, grew an average of 7.12%, beating inflation by just 3.12%.¹ So without stocks in your portfolio, your savings might have significantly less buying power than you anticipate.

Market timing doesn't work

Over the past several years, inflation has remained lower than the historic average and stocks have not performed as well as they have in the past. This leads some investors to think they can wait until the markets return to normal before investing in stocks again. But efforts to time the market (buying and selling according to how the market is performing right now) usually hurt performance. If you continue to invest through a temporary lull in stock values, you may be able to purchase stocks at attractive prices and benefit when the market rebounds.

Although the past is no guarantee of future performance, history suggests that taking a long-term view of stocks works best. Consider a woman who invested \$10,000 in stocks in April 1995. Assuming she reinvested her dividends, she would have accumulated \$30,652 by March 2010.²

Sticking with stocks

All investments include some market or inflation risk. The way to manage those factors is to consider your time horizon and adjust your allocation to stocks, bonds, and money market/stable value investments. As you approach retirement and the need to access your money, you may want to increase your allocation to bonds and stable value investments, so that your portfolio is better positioned in the event of market volatility. An investor with 15 years until retirement might keep nearly 80% invested in stocks. By retirement, the mix may be adjusted so that stocks represent 60% of the portfolio. Stocks should remain an important part of your portfolio because they can provide the growth potential needed to sustain your income stream throughout your retirement.

^{1,2} Ibbotson Associates, a division of Morningstar, Inc. This example uses the performance of the S&P 500. It is for illustrative purposes only and not meant to represent the performance of any investment option in your Plan. It is not possible to invest directly in an index.

continued from page 1

previous chart. The transfer will occur on **Monday, August 2, 2010**. The funds will be available for investment beginning on **Tuesday, August 3, 2010**.

Take another look at your investment choices

With new investment options available, it's a good time to review your investment allocation. Visit the **myRetirementPlan** Web site at **rps.troweprice.com** to see a full listing of the Plan's investment lineup.

Call 1-888-457-5770 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

Making changes to your account

To get investment information or make changes to your account, visit the **myRetirementPlan** Web site at **rps.troweprice.com**. If you need personal assistance, call T. Rowe Price at 1-888-457-5770. Representatives are available during business days between 7 a.m. and 10 p.m. eastern time.